FOODSERVICE MARKETING INSIGHTS

The Online Newsletter for Foodservice Marketing Professionals
From Franklin Foodservice Solutions and Dave DeWalt

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REDISTRIBUTION UPDATE:
"What is Sysco Up to NOW?"

Back in April of 2004, I wrote a commentary entitled "What is Sysco up to Now?" At that time, Sysco had recently announced their intentions to build an RDC network that would revolutionize the foodservice supply chain. And I was impressed by their approach which stated "everybody must benefit," as well as their efforts to help manufacturers understand and quantify the cost savings potential. I wrote, "And they are definitely taking a slow but steady approach, already delaying the planned opening of their first DC, rather than rushing ahead and risking a black eye before they have a chance to prove the concept."

Two and a half years later, RDC #1 is up and running in Front Royal, VA; ground is being broken in Alachua, FL for RDC #2; and Hamlet, IN has been identified as the site of RDC #3. And it's a good time to have another look at what Sysco is up to, because it's been an interesting journey so far.

There has been a lot of speculation in recent weeks about just where Sysco is going with the RDC initiative. Some have openly rumored that the whole idea is being put on hold due to cost overruns, systems issues and service problems in Front Royal. Others talk of a revolt among the OpCo's, who are being put through unprecedented change. Yet public statements from Houston project a "stay the course" mentality. So what's really going on?

With the help of my friends at Cleveland Research (www.cleveland-research.com) and a lot of discussion with manufacturers and foodservice sales and marketing agencies, I've put together the following picture:

-the Front Royal startup has had its problems, in part because the rollout schedule was overly aggressive and included two major systems changes

-but the expected savings are definitely there

-for example, French Fries now move into the northeast on 14 rail cars/week into the RDC, vs. individual shipments to the OpCos

-Sysco believes that when the first 3 or 4 RDC's are operational, they will really begin to "move the needle" on costs

-the RDC model will definitely lead to category consolidation and elimination of some suppliers

-and in the coming years, more purchasing decisions will be made in Houston and fewer at the local level

-there will continue to be some "pushing and shoving" as the new model is rolled out

-but Northeast OpCos are seeing the benefits of the RDC, and all OpCo's know that they are not buying as well as they could be

-after the rough start, both manufacturers and agencies have adapted to the Front Royal RDC model and are enjoying benefits

-and manufacturers expect future RDC implementations to go more smoothly for everyone, based on the learnings from Front Royal

-finally, there are consistent rumblings that the new model could ultimately lead to more net pricing and the ultimate demise of "earned income" programs as we know them

So all indications are that Sysco will continue to roll out their RDC network, albeit at a slower pace than originally expected. It may well take 10 more years until the network is complete. And while it's happening, manufacturers can expect continued category and product rationalization, more centralized purchasing, and deeper involvement of Sysco in their supply chain and production planning decisions.

There will be hard work, change, and some pain for everyone involved. But given the history of manufacturer/distributor relationships, isn't it good to be working on a system that truly makes sense for everyone?

Franklin Foodservice Solutions has been helping manufacturers get more from their redistribution programs since 1996. E-Mail us (dave@franklin-foodservice.com) to receive a copy of our article "Does Your Redistribution Program Address These Realities?"

"The future is not a result of choices among alternative paths offered by the present, but a place that is created - created first in the mind and will, created next in activity. The future is not some place we are going to, but one we are creating. The paths are not to be found, but made, and the activity of making them, changes both the maker and the destination."

-John Scharr

THIS MONTH'S FEATURE ARTICLE:
"The Times They Are A'Changing!"

Yes, things are changing in our business, probably more rapidly than at any time in its history. And the broker agencies who connect manufacturers with the local marketplace are feeling it.

Continued manufacturer consolidation means ever-expanding product lines and a blurring of the concept of "line conflicts." Some agencies themselves are consolidating and forming regional companies in response to manufacturers who want to standardize and simplify their sales function. Chains continue to take a larger share of the foodservice market, limiting the opportunity for growth in commissions. More and more volume is being run through GPO's at special prices, further depressing commissions and increasing the likelihood that a local operator is served by an out-of-market distributor. And internet technology is enabling new levels of market information, while fueling the hunger for more.

But through it all, the industry clings to a 40-year old model regarding how manufacturers and agencies work together. For instance:

-why do we ask agencies to sell operators within a specific geographic territory, but pay them based on sales to the distributors within that territory, regardless of where the product ends up?

-why do we continue to "call conflicts" when consolidation and regionalization have made them practically unavoidable?

-have we considered the potential benefits of allowing an agency to position similar lines as complementary, rather than competitive, and therefore optimize both businesses?

-why do manufacturers shoulder 100% of the bill, when distributors also have considerable influence over how agencies spend their time and effort?

-why do we respond to growing distributor demands for shelter by cutting agency commissions, while demanding increased support from the agency and expecting next to nothing from the distributor?

In some cases, we are handcuffed by lack of a better way. For example, we do not have the ability to truly "see" all of the volume being done in a market, including that shipped in by out-of-market distributors, and pay the local agency accordingly. But there is a lot more operator volume data available today than there was 10 years ago, and this trend will certainly continue.

In most cases, we are too busy trying to squeeze out this Quarter's number to step back and invent a better way. But the situation is not being ignored. The Foodservice Sales and Marketing Association (www.fsmaonline.com) is working with agencies and manufacturers to explore new models in response to our changing industry. Their website has some excellent publications around these topics. I believe that their work combined with market forces will result in some significant changes in the near future. What do you think?

AND FINALLY, A WORD ABOUT "GEOGRAPHY"

I was talking with distribution strategy guru Bruce Merrifield last week (www.merrifield.com), when he casually tossed out a concept that caught my ear. Bruce wondered how many manufacturers have responded to the energy cost mess by focusing their sales and marketing efforts "closer to home."

Bruce was referring to the fact that Sales and Marketing people tend to view all new volume opportunities equally, with little or no attention paid to geography and logistics costs. As a result, we pursue new business that requires shipping across two mountain ranges as aggressively as we pursue the distributors and operators who are down the street from the plant or distribution center.

But if you have national bracketed delivered pricing, you are going to put a lot more on your bottom line by improving penetration of the customers in your own back yards.

This is pretty obvious stuff, but I doubt that many Sales and Marketing people think this way when deploying their time and dollars. It's another symptom of the disconnect between the Supply Chain people and the Sales/Marketing people that I often encounter in my work with foodservice manufacturers.

So if you haven't already done so, take another look at the customers and prospects who are in the neighborhood of your production plants and DC's. An extra sales call made or a dollar spent in this geography can pay off handsomely back at headquarters.

Foodservice Marketing Insights is intended to share ideas and stimulate your thinking about current topics affecting your business. Your comments, criticisms, ideas and questions are all welcome, addressed to dave@franklin-foodservice.com